

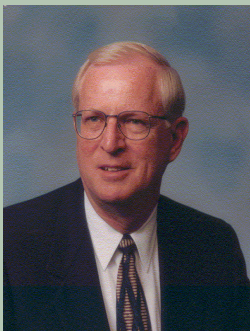
ARIZONA STATE RETIREMENT SYSTEM

Financial Horizons

WINTER 2002

2001 Year in Review

Letter from Mr. Jim Bruner, Chairman
Arizona State Retirement System Board



Dear ASRS Members,

The year 2001 proved to be an eventful one for the Arizona State Retirement System. In this issue of *Financial Horizons*, I am very pleased to present a summary of information from the Annual Financial Report for the period ending June 30, 2001. The Board and staff of the ASRS strive for excellence in customer service and continue to produce a number of measurable successes.

Investment Performance

Perhaps one of the most dramatic measures of success comes from the fund's investment performance. Guided by the ASRS Board's long-term strategy, the ASRS continues to be recognized as one of the top-performing public pension plans in the nation. The ASRS posted an investment return of -6.7 percent for the year ending June 30, 2001, while the S&P 500 posted a return of -14.8 percent for the same period. The annualized return for the last three years was 6.2 percent per year. The five-year annualized return was 11.9 percent per year, and the ten-year average return was 12.6 percent per year.

Member Services Performance

Member and financial services staff had a busy year. The staff in our member services center received over 190,000 telephone inquiries. Another 25,000 members visited our two offices, whether to attend an educational seminar or workshop or to visit personally with a benefit advisor. This year, approximately 4,000 new retirements were processed. Additionally, 8,500 benefit estimates and 9,500 service purchase cost letters were calculated and mailed to members.

ASRS Achievements

Among the many achievements in the 2000 fiscal year, the ASRS Board and staff implemented provisions enacted by 2001 legislative action and accomplished the following:

House Bill (HB) 2164 (ASRS; Health Insurance Premium Benefit) increased the health insurance premium for members by the following amounts:

Continued on Page 2

Inside This Issue:

Information on the Deferred Retirement Option Program (DROP) _____ 2

Annual Financial Report Summary _____ 3

2002 Schedule of Seminars & Group Meetings _____ 5

Bulletin Board _____ 7

ASRS Rates of Return _____ 7

ASRS Board

Jim Bruner, Chairman, Scottsdale Public; term expires 2004

Mr. Norman Miller, Vice-Chairman, Phoenix Public; term expires 2004

Dr. Merlin K. DuVal, Phoenix Retired; term expires 2002

Dr. Chuck Essigs, Mesa Educator; term expires 2004

Bonnie Gonzalez, Flagstaff State employee; term expires 2003

Alan Maguire, Phoenix Member at large; term expires 2003

Karl L. Polen, Phoenix Public; term expires 2004

Ray Rottas, Paradise Valley Public; term expires 2003

Vacant Political Subdivision

Administration

LeRoy "Gil" Gilbertson, Director

Anthony Guarino, Deputy Director, Chief Operations Officer

Paul Matson Chief Investment Officer

Richard Stephenson Deputy Director, External Operations

THE ASRS MISSION

The mission of the ASRS is to contribute toward its members' long-term financial security by providing retirement, disability, survivors' and health insurance benefits; and by counseling and disseminating information to its members.

Furthermore, the mission of the ASRS Web site is to provide timely and useful information on-line to ASRS members, the Arizona State Legislature, Governor's Office, employers, staff, vendors and the public.

Letter from the Chairman of the ASRS Board

Continued from Page 1

Medicare eligible member from \$65 to \$100
Non-Medicare eligible member from \$95 to \$150
Non-Medicare family coverage from \$175 to \$260
Medicare eligible family coverage from \$115 to \$170
Combination Medicare and Non-Medicare eligible from \$145 to \$215

Chapter 68, House Bill (HB) 2050 (return to work) Permits retired members of the ASRS to return to work and still be eligible to receive retirement benefits if they have been terminated from employment for a period of 12 months. The members who take this option will not be eligible for LTD benefits nor will they contribute to the ASRS or accrue additional benefits during the period of re-employment. This act is repealed June 30, 2003. This is similar to the bill passed in the 2000 session allowing retired teachers to return to work, and it does not affect the requirements of that program.

The ASRS External Operations staff continues to respond regularly to issues and constituent inquiries from Senate and House legislative staff, the Joint Legislative Budget Committee, the Governor's Budget Office, staff from Legislative Council and members at the Capitol.

I invite you to stop by and see us at one of our board meetings, or contact the ASRS and let us know how we are doing. I am proud of our accomplishments in 2001, and it is an honor to represent you as chairman of the ASRS Board.

Jim Bruner

Chairman of the ASRS Board

Information on the Deferred Retirement Option Program (DROP)

The Arizona legislature passed, and the governor signed Senate Bill (SB) 1295, Chapter 380. This bill allows non-retired members, at normal retirement*, to work up to an additional three years with the option to purchase another three years. This additional time (up to a potential of six years) would add to the member's total years of credited service (please see the example below).

The following is a more in-depth explanation of the benefits of SB 1295, Chapter 380:

ASRS Deferred Retirement Option Plan (DROP)

- Permits an employer to offer a member who has met normal retirement age up to an additional three years of employment
- The eligible member and employer will not make retirement contributions to the ASRS defined benefit plan during the period of the agreement
- The eligible member and/or employer will make contributions into the ASRS new supplemental defined contribution plan to cover the cost of purchasing the service
- At the conclusion of the agreed period, the eligible member will receive credited service for the time worked with the option to purchase the equivalent amount of service of time worked
- The eligible member and employer will continue to pay LTD (.49%) contributions
- The DROP will become available when the ASRS adopts the new supplemental defined contribution plan after receiving a private letter ruling from the Internal Revenue Service approving the program
- The enactment date of the DROP is anticipated to be by June 2002

Partial Lump Sum Option

- Provides a member the option to receive a lump sum payment at retirement
- The amount may be equal to a maximum 36 months of a member's calculated pension benefit
- The member's life annuity would then be adjusted actuarially to offset the lump sum payment
- The member will be able to take a cash payment, roll the money over to an IRA or annuitize the lump sum payment
- The enactment date of the Partial Lump Sum Option is July 1, 2002 - it will be available to members retiring on or after that date

Continued on Page 3

Graded Multiplier

- Provides a graduated multiplier in the retirement formula
- The multiplier increases with years of credited service based on the following scale:

| | |
|--|-------------------|
| 0.00 to 19.99 years of credited service | 2.10% (no change) |
| 20.00 to 24.99 years of credited service | 2.15% |
| 25.00 to 29.99 years of credited service | 2.20% |
| 30.00 or more years of credited service | 2.30% |

The enactment date for the graded multiplier was May 8, 2001.

PLEASE NOTE: The Partial Lump Sum Option and the Graded Multiplier are available regardless if a member utilizes the DROP.

CURRENT STATUS: The graded multiplier has been implemented. The DROP will be available upon receipt of a private letter ruling from the IRS approving the program. The Partial Lump Sum Option will be available to members retiring on or after July 1, 2002. Employers are encouraged to contact the ASRS for details.

Examples of a Member's Benefits when Utilizing the ASRS DROP

| | Scenario One Member retires at age 55 with 25 years of credited service (no DROP) and is entitled to take a partial lump sum. | Scenario Two Member retires at age 58 with 31 years of credited service (utilizing the ASRS DROP, member works an additional 36 months and purchases 36 months of credited service) and is entitled to take a partial lump sum |
|---|---|--|
| No Partial Lump Sum Option | | |
| Monthly Benefit | \$2,292 | \$2,971 |
| Partial Lump Sum | \$0 | \$0 |
| One-Year Partial Lump Sum Option | | |
| Monthly Benefit | \$2,080 | \$2,685 |
| Partial Lump Sum | \$27,500 | \$35,650 |
| Two-Year Partial Lump Sum Option | | |
| Monthly Benefit | \$1,868 | \$2,400 |
| Partial Lump Sum | \$55,000 | \$71,300 |
| Three-Year Partial Lump Sum Option | | |
| Monthly Benefit | \$1,656 | \$2,114 |
| Partial Lump Sum | \$82,500 | \$106,950 |

***Normal Retirement**

Member's age + years of service = 80 points
 Member is age 62 with at least 10 years of credited service
 Member is age 65

Annual Financial Report Summary *Statement of Revenues and Expenses* (as of June 30, 2001)

Revenues

| | |
|----------------------------|---------------------------------|
| Member Contributions | \$ 163,441,640 |
| Employer Contributions | \$ 163,441,724 |
| Member Purchase of Service | \$ 39,534,937 |
| Net Investment Income | \$(1,528,690,829) |
| TOTAL | <u>\$(1,162,272,528)</u> |

Expenses

| | |
|----------------------------------|--------------------------------|
| Retirement & Disability Benefits | \$ 895,481,649 |
| Survivor Benefits | \$ 14,133,500 |
| Member Refunds | \$ 98,535,274 |
| Administrative Expenses | \$ 12,168,828 |
| Transfers to other systems | \$ 10,156,958 |
| Other | \$ 2,313,813 |
| TOTAL | <u>\$ 1,032,790,022</u> |

GROWING BY THE NUMBERS

Below is a snapshot of the ASRS' membership as of June 30, 2001.

TOTAL MEMBERSHIP: 350,269

| | |
|--------------------------------|---------|
| Inactive Members (non-retired) | 96,193 |
| Active Members | 191,252 |
| Retirees | 58,920 |
| LTD Members | 3,904 |

Employers 635

Required contribution as a percentage for fiscal year 2001-2002:

| | |
|------------------|--------|
| Employee Portion | 2.66%* |
| Employer Portion | 2.66% |
| Total | 5.32% |

*The statutory contribution rate for the year ended June 30, 2001, was 2.49% (2.0% retirement and .49% long-term disability)

ASRS TOTAL ASSETS

With security as the principal consideration in our investments, the ASRS' assets continue to grow. As of June 30, 2001, the total fund was worth \$22 billion.



Schedule of Investments

The following shows the fair value of the ASRS assets for the period ending June 30, 2001.

| | Market Value |
|--------------------------------|-------------------------|
| Corporate Stocks | \$16,037,444,361 |
| Fixed Income Securities: | |
| -Corporate Bonds | \$ 1,845,985,277 |
| -Government Bonds | \$ 3,122,251,298 |
| -Real Estate Mortgages | \$ 233,118,939 |
| -Temporary Investments | \$ 479,529,097 |
| -Net Payables on Transactions: | <u>\$ (70,556,126)</u> |
| TOTAL PORTFOLIO | \$21,647,772,846 |

Brief Overview of Assets & Liabilities

ASSETS

| | |
|---------------------|--------------------------------|
| Cash in Bank | \$ 74,586,646 |
| Receivables | \$ 239,726,191 |
| Investments | <u>\$23,246,642,414</u> |
| TOTAL ASSETS | <u>\$23,560,955,251</u> |

LIABILITIES & RESERVES

| | |
|-----------------------|--------------------------------|
| Payables | \$ 1,830,412,593 |
| Reserves for Benefits | <u>\$21,730,542,658</u> |
| TOTAL | <u>\$23,560,955,251</u> |

2002 Schedule of Seminars and Group Meetings

The Member Services Division of the ASRS conducts a variety of educational meetings available to all members. Due to resource limitations, **reservations are required**. Reservations can be made by calling our Member Service Center in Phoenix at (602) 240-2000, in Tucson at (520) 239-3100, or outside metro Phoenix and Tucson at 1 (800) 621-3778.

Seminars cover information that is essential to planning for retirement including pension benefits, health insurance, social security and other issues. It also covers calculating retirement benefits and maximizing your potential benefit. Seminars are designed for members who are within five years of retirement.

Group Meetings are offered to members within one year of retirement and provide detailed information and assistance on completion of retirement forms and transitioning to retirement.

SCHEDULE OF SEMINARS

February 12, 2002

9 a.m., 3300 N. Central Ave., 10th fl., Phoenix, AZ

9 a.m., 7660 E. Broadway Blvd., Tucson, AZ

February 26, 2002

9 a.m., 3300 N. Central Ave., 10th fl., Phoenix, AZ

March 14, 2002

9 a.m., 3300 N. Central Ave., 10th fl., Phoenix, AZ

March 19, 2002

9 a.m., 3300 N. Central Ave., 10th fl., Phoenix, AZ

March 23, 2002

9 a.m., 7660 E. Broadway Blvd., Suite 108, Tucson, AZ

April 11, 2002

9 a.m., 3300 N. Central Ave., 10th fl., Phoenix, AZ

April 18, 2002

9 a.m., 7660 E. Broadway Blvd., Suite 108, Tucson, AZ

April 25, 2002

9 a.m., 3300 N. Central Ave., 10th fl., Phoenix, AZ

SCHEDULE OF GROUP MEETINGS

February 2, 2002

9 a.m., 7660 E. Broadway Blvd., Suite 108, Tucson, AZ

February 6, 2002

5 a.m., 3300 N. Central Ave., 10th fl., Phoenix, AZ

February 7, 2002

9 a.m., 7660 E. Broadway Blvd., Suite 108, Tucson, AZ

February 8, 2002

9 a.m., 3300 N. Central Ave., 10th fl., Phoenix, AZ

Schedule of Group Meetings Continued...

February 9, 2002

9 a.m., 3300 N. Central Ave., 10th fl., Phoenix, AZ

February 13, 2002

3 p.m., 3300 N. Central Ave., 10th fl., Phoenix, AZ

February 20, 2002

3 p.m., 3300 North Central Ave., 10th fl., Phoenix, AZ

February 21, 2002

4 p.m., 7660 E. Broadway Blvd., Suite 108, Tucson, AZ

February 22, 2002

9 a.m., 3300 North Central Ave., 10th fl., Phoenix, AZ

February 27, 2002

3 p.m., 3300 North Central Ave., 10th fl., Phoenix, AZ.

March 5, 2002

9 a.m., 7660 E. Broadway Blvd., Suite 108, Tucson, AZ

March 6, 2002

3 p.m., 3300 N. Central Ave., 10th fl., Phoenix, AZ

March 8, 2002

9 a.m., 3300 N. Central Ave., 10th fl., Phoenix, AZ

March 13, 2002

5 p.m., 3300 N. Central Ave., 10th fl., Phoenix, AZ

March 14, 2002

4 p.m., 7660 E. Broadway Blvd., Suite 108, Tucson, AZ

March 15, 2002

9 a.m., 3300 N. Central Ave. 10th fl., Phoenix, AZ

March 20, 2002

9 a.m., 3300 N. Central Ave., 10th fl., Phoenix, AZ

March 23, 2002

9 a.m., 3300 N. Central Ave., 10th fl., Phoenix, AZ

Group meetings continued...

March 26, 2002

4 p.m., 7660 E. Broadway Blvd., Suite 108, Tucson, AZ

March 27, 2002

3 p.m., 3300 N. Central Ave., 10th fl., Phoenix, AZ

March 29, 2002

9 a.m., 3300 N. Central Ave., 10th fl., Phoenix, AZ

April 3, 2002

3 p.m., 3300 N. Central Ave., 10th fl., Phoenix, AZ

April 4, 2002

9 a.m., 7660 E. Broadway Blvd., Suite 108, Tucson, AZ

April 5, 2002

9 a.m., 3300 N. Central Ave., 10th fl., Phoenix, AZ

April 9, 2002

4 p.m., 7660 E. Broadway Blvd., Suite 108, Tucson, AZ

April 10, 2002

3 p.m., 3300 N. Central Ave., 10th fl., Phoenix, AZ

April 12, 2002

9 a.m., 3300 N. Central Ave., 10th fl., Phoenix, AZ

April 17, 2002

9 a.m., 7660 E. Broadway Blvd., Suite 108, Tucson, AZ

5 p.m., 3300 N. Central Ave., 10th fl., Phoenix, AZ

April 24, 2002

3 p.m., 3300 N. Central Ave., 10th fl., Phoenix, AZ

April 26, 2002

9 a.m., 3300 N. Central Ave., 10th fl., Phoenix, AZ

April 27, 2002

9 a.m., 3300 N. Central Ave., 10th fl., Phoenix, AZ

✓ **DON'T FORGET!!** Due to resource limitations, **reservations are required.** Reservations can be made by calling our Member Service Center in Phoenix at (602) 240-2000, in Tucson at (520) 239-3100, or outside metro Phoenix and Tucson at 1 (800) 621-3778.

You can also look at the schedule on our Web site at www.asrs.state.az.us to see what has already filled up or to see what we may have added!

Changes in Federal Law that could affect you!

In 2001, the Economic Growth & Tax Relief Reconciliation Act (EGTRRA) was passed by Congress and signed into law for implementation on January 1, 2002. As of this writing, the Arizona State Legislature is working to bring our state laws into compliance with federal law. What does that mean to you as an active contributing member of the ASRS?

Currently under state law, you may elect to purchase eligible approved service time through rollover monies from the following qualified plan sources: 401(k), qualified annuity plan under IRS code 403(a), Keogh and conduit IRA funds. (A conduit rollover IRA is an IRA or an Individual Retirement Annuity that you have established and have funded exclusively with eligible rollover distributions that you received from one or more of your prior employer's qualified plans.)

Plans that are NOT eligible are: 403(b), 457 (deferred compensation) and most IRAs. The EGTRRA bill changed that determination. When the Arizona legislature brings state laws into compliance with the federal law, you may request to use assets in 403(b), 457 and IRA plans to purchase your requested and approved eligible service time (excluding contributions not withheld).

Keep in mind, if you have a current request to purchase service and *have received your cost letter*, you must follow the legislation applicable to the date your letter was written.

Please Note: The state legislation **may** include an emergency effectiveness clause that would put the new laws into effect January 2, 2002. If the clause is included and you are still within the 30-day response limit to your cost letters in hand, you may request a rollover packet for previously unavailable options such as 403(b), 457 or IRA funds.

Be sure to visit the legislative section of our Web site at www.asrs.state.az.us to follow what is happening at the Arizona state legislature and how it may affect you.

Things to do

✓ Track the legislative sessions and follow any progress towards passing and signing necessary laws to utilize 403(b), 457 and IRA plans.

✓ Wait until you receive your cost letter from the ASRS to request a rollover packet. (Rollovers will not be accepted until a completed rollover packet has been submitted and a letter of approval from the ASRS has been received.)



BULLETIN BOARD



If you ever worked for the Department of Economic Security, Family Assistance Division Read On!

Anyone that worked in the Glendale office, at 142c from 1976 until 1998 is invited to get together with former co-workers to renew old friendships. A possible alumni group is being formed for yearly get togethers. If interested, please e-mail Rosalyn Abramowitz at roza@quik.com or call 623-362-1211.

Retiring Within the Next Six Months?

If your current membership enrollment began **prior to January 1, 1984**, you are entitled to two types of benefit estimate calculations. Contact your payroll department to provide you with the amount of monies you will receive for unused annual leave and sick leave. School district employees may use both sums as part of their benefit estimate. Municipal employees may utilize unused annual leave only. Be sure to call and enroll in an ASRS group meeting and provide the benefits advisor with the sums listed above. Check our group meetings listed in this issue on pages five and six or on our Web site at www.asrs.state.az.us under the "ASRS Calendar."

Are You Moving?

Retirees must submit all changes in writing by the 10th of the month in order to make changes effective for the next pension check. Active members can contact the ASRS by e-mail at contact_us@asrs.state.az.us, by letter at P.O. Box 33910, Phoenix, AZ, 85067, or by telephone at 602-240-2000 in metro Phoenix, 520-239-3109 in metro Tucson, 1-800-621-3778 outside metro Phoenix and Tucson. **Please include your Social Security number in all correspondence.**

Do You Have Questions About Insurance Billing or Premium Adjustments?

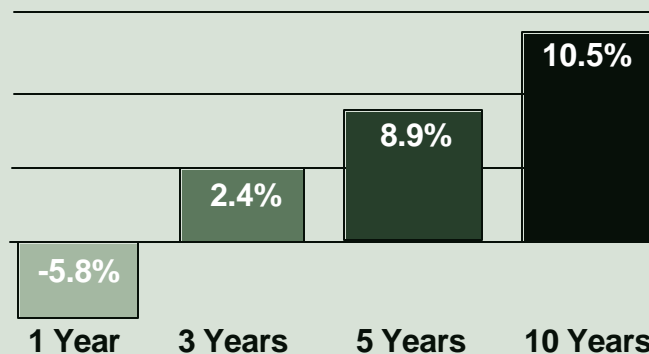
If you are being billed directly for health or dental premiums, contact your insurance company. The ASRS is unable to issue refunds for members who are being directly billed and you will need to contact your insurance company. If premiums are being deducted from your pension check, refund amounts due to adjustments will be applied to future premiums or a refund will be sent directly. If your premiums are deducted from your pension check and adjustments are made in the premium or premium benefit amounts, your premium benefit or pension check may not be able to cover additional costs in the month that the adjustments are posted. You will be billed directly by the insurance provider for any shortfall to cover the additional costs. If you have questions for any of the health and/or dental insurance carriers that are contracted with the ASRS, please call:

HEALTH: PacifiCare HMO 1-800-347-8600, **PacifiCare PPO** 1-800-456-3224, **Senior Supplement** 1-800-851-3802
DENTAL: Protective Dental 1-800-456-2345

ASRS

Investment Rates of Return

The ASRS continues to benefit from steady rates of return. This graph reflects the rates of return for the period ending December 31, 2001.



The ASRS has a very useful Web site (www.asrs.state.az.us) for our members to utilize. The site is broken down into

eight categories; Investments, New Stuff, Non-Retired Members, Retired Members, Financial Planning, Employers, Legislation, and About Us. Each category is structured to include information that is helpful to the individual user.

**Visit Us
On-Line!**

Interactive vs. Text Version

One of the first choices available when you access the Web site is the option to choose either the **Text** or **Interactive** versions. Please be sure to read each description carefully as the choice you make will have a big impact on how fast you will be able to access the information on our site. **The Interactive version** is graphically enhanced and employs some of the more modern Web technologies. **The Text version** is designed for visitors that may have visual impairments or other disabilities, slower connections to the Internet and/or older/text based Web browsers.

Financial Horizons

P.O. Box 33910
Phoenix, AZ 85067-3910

PRSR-STD
U.S. Postage

PAID

Arizona State
Retirement System

COMMENTS?

The Arizona State Retirement System continues to appreciate your comments and suggestions. We encourage you to write the ASRS Director, LeRoy Gilbertson, with your concerns. Please include your name, telephone number and Social Security number on all correspondence. Thank you for your input.

Send letters to:
LeRoy Gilbertson, Director
Arizona State Retirement System
P.O. Box 33910
Phoenix, AZ 85067-3910

ASRS *Financial Horizons* is published quarterly for retired and non-retired members of the Arizona State Retirement System. We welcome letters from our readers and encourage you to address your comments to:

Stephanie Marries, Editor
Financial Horizons
P.O. Box 33910
Phoenix, AZ 85067-3910

The ASRS complies with the *Americans with Disabilities Act of 1990*. This newsletter is available in an alternate format upon request. Contact Ami Bradford, Human Resources, at (602) 240-2072. Information in the newsletter about retirement laws or policies is only a guide. If a conflict arises between information contained in the newsletter and the law, the law takes precedence.

CONTACT US!

ON THE WEB:
www.asrs.state.az.us

PHOENIX OFFICE:
3300 North Central Avenue
PO Box 33910
Phoenix, AZ 85067-3910
(602) 240-2000

TUCSON OFFICE:
7660 East Broadway Boulevard
Tucson, AZ 85710-3776
(520) 239-3100

**OUTSIDE METRO PHOENIX
AND TUCSON:**
Call Toll Free at (800) 621-3778

A More Meaningful Volunteer Opportunity!

A public appeal has been made by the State of Arizona Administrative Office of the Courts to invite more citizens to get involved with a unique court program since the state now has nearly 6,200 abused and neglected children in the system.

Court Appointed Special Advocates (CASA Volunteers) are citizens living throughout the state, actively involved in protecting the rights of abused children and serving as their voice in court. Administered statewide by the Arizona Supreme Court, the CASA Program was established as an alternative to make sure the best interests of abused and neglected children would be consistently represented in court. A CASA Volunteer is trained to gather and report objective information that helps judges make sound decisions concerning an abused child's permanent placement.

CASA Volunteers work around their own schedule, donating an average of 10-15 hours per month on a case. They talk to the child, work with caseworkers, family members, attorneys, therapists, teachers, etc. until the case is closed and the child is placed in a safe, permanent home. To become a CASA Volunteer, a person must be at least 21 years old (there is no maximum age limit), complete an application, personal interview, background check, polygraph examination and a two-day orientation training.

There is no special background required to become an advocate. However, a person must be able to work with different people on all levels, while remaining objective in their dealings. For more information about volunteering, please look on the Web site at www.supreme.state.az.us/casa or call 1-800-732-8193.